



An Audit of Sam Houston State University

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Executive Summary

Purpose and Scope

Objectives of the Sam Houston State University (University) audit were to determine whether:

- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2015, through Aug. 31, 2016.

Background

Sam Houston State University offers over 80 bachelor's degree programs, more than 50 master's degree programs, and six doctoral programs, including nationally recognized programs in business, fine arts, education, mathematics and criminal justice.

Sam Houston State University
website

<https://www.shsu.edu/>

Audit Results

The University generally complied with the General Appropriations Act (GAA), other relevant statutes and Comptroller requirements. Auditors found no issues with grants, payment cards or system security. However, the University should consider making improvements to its payroll, travel, purchase and internal control processes. The University received schedules of these findings during fieldwork.

The auditors reissued three findings from the last audit conducted at the University related to noncompliance with Human Resource Information System (HRIS) reporting requirements, missing statutory authority for certain purchases and internal control structure. Auditors originally issued these findings in November 2012.

Other observations noted during the audit period include the University reporting 301 assets with an original purchase value of \$495,239.54 and a current net book value of \$0.00 as missing and/or stolen. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	 Missing HRIS data for 147 employees.	Compliant, Findings Issued
<u>Travel Transactions</u>	Did travel transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • There was one duplicate reimbursement. • There were two ineligible payments for gratuities. • There were three travel payments that lacked the application of conservation of state funds requirement. 	Compliant, Findings Issued
<u>Purchase Transactions</u>	Did purchase transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • There were two ineligible payments for gratuities. • There was one payment of state sales tax that is not payable with state funds. • There was one transaction with incorrect amount paid.  There were two transactions missing statutory authority for the purchase.	Compliant, Findings Issued
<u>Grant Transactions</u>	Did grant payments comply with the state laws and regulations pertaining to grants/loans and other pertinent statutes?	No issues	Fully Compliant
<u>Payment Card Transactions</u>	Did payment card purchase transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant





Area	Audit Question	Results	Rating
Security	Did all system access to process payments comply with all the Comptroller security guidelines?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 Two employees with overlapping security access for multiple duties.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant
<u>Target Analysis</u>	Did the University comply with the federal mandate to properly identify and handle payments involving moving funds internationally?	Three instances where an older form was used that did not include the question regarding whether the money would be sent out of the country.	Compliant, Findings Issued



Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The University should correct the HRIS reporting errors according to the requirements of the Comptroller's office.
- The University must ensure that it thoroughly reviews travel vouchers and supporting documentation to ensure they are correct and do not include unallowable expenses.
- The University must properly review and compare the purchase invoices for completeness and accuracy, and compare them to the purchase order/contract to ensure that payments do not exceed the amounts authorized in the contract, and that any amendments to the original contract are documented.



- The University must update its policies and procedures to ensure that it does not purchase goods or services that it does not have the statutory authority to purchase, or that do not appear to further a state purpose connected with the University's statutory responsibilities.
- The University must have or implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.
- The University must use the appropriate direct deposit authorization form for payees requesting payments via direct deposit.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 50 employees involving 178 payroll transactions totaling \$307,940.60 to ensure that the University complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions. Additionally, a limited sample of five voluntary contributions and four organizational dues transactions were audited with no exceptions identified.

However, during the review of specialized payroll reports, auditors identified instances where payroll data was incorrectly reported to HRIS. This finding is noted below.

Incorrect HRIS Reporting

The University posts financial transactions to both HRIS and the Uniform Statewide Accounting System (USAS). However, during the comparison of data entered in both systems from two different reports, auditors discovered data missing for 147 of 199 employees listed and therefore incorrectly reported to HRIS. According to the University, the data discrepancies were due to a missing fund indicator in the extract table used to report data into HRIS.

The Comptroller's office collects and maintains payroll and personnel information on all state employees. The information is used to report statistics to various legislative and oversight bodies, media and the general public. Institutions of higher education must report personnel and payroll events to HRIS as outlined in [34 Texas Administrative Code Section 5.41\(h\)-\(i\)](#). If the Comptroller's office detects an error in a state agency's report of personnel or payroll information, the Comptroller's office will provide a description of the error to the agency. The agency must then correct the error according to the requirements of the Comptroller's office.

Recommendation/Requirement

The University must ensure that all payroll and personnel transactions are reported to HRIS in a timely manner. The report submitted to HRIS must be made in the manner, frequency and form required by the Comptroller's office.

University Response

The Payroll Office has reviewed the coding for all HRIS reporting and setup for accuracy and will continue to monitor and review. The coding issue that caused this error has been corrected. All current reporting is being submitted accurately. We continue to work with HRIS personnel to correct the missing information for fiscal year 2016 and fiscal year 2017. We anticipate the corrections to be completed within this calendar year.



Travel Transactions

Auditors developed a representative sample of 75 travel transactions totaling \$20,118.88 to ensure the University complied with the GAA, [Textravel \(FPP G.005\)](#) and other pertinent statutes. Audit tests revealed the following exceptions for this group of transactions.

Duplicate Reimbursement

Auditors identified two payments made to the same employee for the same trip, resulting in one duplicate travel reimbursement for \$511.24.

Recommendation/Requirement

The University must strengthen its current procedures to identify duplicate travel reimbursement requests to ensure it avoids making a duplicate payment to an employee. The accounting staff must reconcile receipts and payments in an effort to prevent duplicate reimbursements. The University should request a reimbursement from the employee unless it determines it is not cost effective to do so.

University Response

Sam Houston State University implemented an automated software travel and expense system, Chrome River, in April 2018 and no longer uses a paper-based reimbursement process. The Chrome River system is configured with specific compliance rules, including guidelines that would capture exceptions. Audits within the Chrome River system would capture errors such as duplicate payments. In addition, the system allows transparency, and travel staff is able to view all travel-related expenses submitted by any specific employee.

The duplicate payment pulled in the audit was added to the employee's AR account and was paid back to the University on March 28, 2017, in the amount of \$511.24.

Gratuities Not Payable

Auditors identified two transactions that reimbursed employees for meal expenses that included gratuities totaling \$17.10. The University indicated that the errors were missed during the review process.

[Texas Constitution, Article III, Section 51](#), prohibits giving away the state's money for private purposes. The payment of a gratuity is a violation of this section. Additionally, [TexTravel – Meals/Lodging – Prohibited Reimbursements](#) states that tips paid in conjunction with meal expenses are not reimbursable.



Recommendation/Requirement

The University must thoroughly review travel documents and receipts for legality and accuracy prior to payment.

University Response

In September 2017 Sam Houston State University adopted a new policy regarding overnight travel meal reimbursements. Employees may receive actual meal expenses not to exceed federal rates provided by the GSA.

The newly implemented Chrome River automated software does not allow payment for more than the per diem amount per specific location.

See SHSU policies [TR-01](#) and [TR-03](#).

Lack of Conservation of State Funds

Auditors identified three transactions totaling \$411.81 within the sample and three transactions outside the sample where the University did not conserve state funds.

In three instances, the University reimbursed travelers for mileage incurred while operating personal vehicles to conduct official business without ensuring that the decision to drive a personal vehicle versus renting an automobile was in the best economic interests of the state as required under [Texas Government Code, Section 660.007\(a\)](#).

Based on the applicable car rental rates, related taxes, cost of gas and the standard mileage rates in effect at the time of travel, auditors determined it was more cost effective to the state if the travelers used rental vehicles instead of personal vehicles. The University's travel policies and procedures do not require employees to conduct a cost comparison of rental car versus personal vehicle prior to travel.

In three other instances, the University reimbursed employees for the cost of valet parking when a standard parking rate was available at a lower cost or was included at no charge in the lodging rate.

[Texas Government Code, 660.007\(a\)](#) requires a state agency to minimize the amount of travel expenses paid or reimbursed by the agency. The agency must ensure that each travel arrangement is the most cost effective considering all relevant circumstances.



Recommendation/Requirement

The University must exercise caution in its use of state funds and ensure that expenditures are fiscally responsible. University employees should prepare a cost comparison analysis before each trip showing the cost of using a rental car versus that of using a personal vehicle to ensure the most cost-effective alternative is used. The University should develop procedures for travelers to complete cost comparisons prior to travel and subject to approval.

Prior to authorizing travel, the University must review travelers' requests to ensure compliance with the travel regulations and must closely review travelers' reimbursement requests to ensure that only eligible expenses are reimbursed to employees.

University Response

The travel office has been reviewing rental car vs. mileage comparisons on state-funded travel reports since April 2017. Travel policy will be updated in March 2019 to instruct campus users traveling on state funds to provide a cost comparison of rental vehicle vs. personal vehicle mileage with their pre-approval travel report to ensure conservation of state funds. Staff will continue to closely monitor reports to ensure only eligible expenses are reimbursed.

Purchase/Procurement Transactions

Auditors developed a representative sample of 105 purchase/procurement transactions totaling \$658,450.04 to ensure that the University complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and other pertinent statutes. Audit tests revealed the following exceptions in purchase transactions.

Gratuities Not Payable

Auditors identified two transactions in which the University paid \$67.87 in gratuities. In two separate instances, the University's Law Enforcement Management Institute of Texas purchased meals for law enforcement participants of professional development programs and paid gratuities to the delivery person and wait staff. The University indicated that the payment was made due to an oversight by the University.

[Texas Constitution, Article III, Section 51](#), prohibits giving away the state's money for private purposes. The payment of a gratuity is an example of violation of this section. Also, see [Expendit – Restricted Expenditures](#).



Recommendation/Requirement

The University must thoroughly review invoices for legality and accuracy prior to payment.

University Response

The department with the infractions was notified that these type of expenses are not allowed on state funds. Procurement staff and Disbursements staff were instructed to always check for gratuities as a part of their oversight review on the purchase order and invoice prior to payment.

Improper Payment of State Sales Tax

Auditors identified one transaction in which the University paid \$551.22 in state sales tax, \$84.00 of which was within the sample. The University indicated that the payment was made due to an oversight.

These charges are not payable with state funds. The purchase, lease or rental of a taxable item to an exempt organization is exempt from tax when the organization or an authorized agent pays for the taxable item and provides the vendor with an exemption certificate. See [34 Texas Administrative Code Section 3.322\(g\)\(2\)](#).

Recommendation/Requirement

The University must thoroughly review invoices for legality and accuracy prior to payment. The University must obtain a refund from the vendor for the amount of the taxes.

University Response

The error noted above occurred due to a tolerance within the automated system that allowed the payment of the sales tax to process without exception. Disbursements has removed all tolerances in the automated eProcurement/Invoice tool that would allow, as in this case, payment of sales tax. Staff is advised to pay careful attention to any tax added to invoices when reviewing invoices prior to payment. This was a clerical error.

Incorrect Amount Paid

Auditors identified one transaction in which the University paid \$80, \$22.40 of which was within the sample, exceeding the amount authorized by the purchase order (PO). The University failed to amend the original PO to increase the dollar amount and include the additional services the vendor provided. The University stated a PO change notice was not initiated as the additional charge added to the invoice met an internal threshold of less than five percent difference; therefore, the university authorized the payment.



A PO is a contract between the state and a vendor. The authorized dollar amount paid on a contract may not exceed the amount listed on the PO without properly documenting an amendment to the original PO prior to the vendor providing goods or services. The University may pay only the contracted amount as shown on the PO. If any charges are not included in the PO, the University does not owe the charges and they should not be paid. There is no state policy allowing variances in invoices and POs.

When the University and a vendor agree to a certain rate or quantity, any amount above that rate or quantity must not be paid unless the PO is properly amended by the vendor providing additional consideration. In addition, any amendments must be completed prior to the vendor providing goods or services.

Recommendation/Requirement

The University must properly review and compare the invoices for completeness and accuracy, and compare them to the purchase order/contract to ensure that payments do not exceed the amounts authorized in the contract. Any amendments to the original contract must be documented. If the University allows for variances in invoices and POs, any amount not authorized by the PO must be paid with local funds rather than state funds.

University Response

Purchasing procedures require a change order be processed for any amendments to an order. Procurement staff has been reminded that a purchase order change notice is required on ALL changes to state funded purchase orders.

Disbursements staff has also been reminded that a purchase order change notice is required for any payment requested above and beyond the original amount of the purchase order if expenditures are state funded.

Missing Statutory Authority for Purchase

Auditors identified two transactions totaling \$836.04 where the University did not have the legal authority for the purchase. One transaction was related to food and service fees for a tailgate party, while the other transaction was a reimbursement for a business meal expense. The University was under the impression that it had implied authority and could sponsor tailgate events and purchase food to promote its Law Enforcement Management Institute of Texas programs.

The sponsoring of tailgates at football games and the purchase of food involves promotion or advertising of the University. Appropriated funds may not be used in this manner because the University does not have express or implied authority to spend appropriated funds on promotional items or advertising. See [eXpendit – General Provisions – Statutory Authority for Purchases](#). In addition, this activity does not appear to further a legitimate public purpose that justifies the use of public funds for private gain. [Texas Constitution, Art. III, Section 51](#) and [Attorney General Opinion JC-0350 \(2001\)](#).



Recommendation/Requirement

The University must update its policies and procedures to ensure that it does not purchase goods or services without statutory authority to do so. The University must reimburse the state's treasury for the funds expended without legal authority.

University Response

LEMIT and CMIT departments were advised that they may not use state funds for their programs to pay for food outside of food purchased for participants. Further, departments have been advised that they should always reference the statutory authority on their purchase order.

Procurement will add the statutory clause into the eProcurement system in March 2019 so that LEMIT and CMIT departments can add to their PO when created, thus reducing the need for manual data entry each time they order.

Reimbursement for the amount owed to the state will be processed in March 2019 and the CPA will be notified once the document number is available.

Grant Transactions

Auditors developed a representative sample of 20 grant transactions totaling \$57,332.50 to ensure the University complied with the state laws and regulations pertaining to grants/loans and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Payment Card Transactions

Auditors developed a limited sample of 10 purchase and 10 travel card transactions, totaling \$48,687.43, from a special report outside the purchase and travel groups to ensure the University complied with the GAA, [eXpendit \(FPP 1.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Security

The audit included a security review to identify any of the University's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed no security exceptions.



Internal Control Structure

The review of the University's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exceptions in user access.

Control Weakness over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the University placed on its accounting staff's ability to process expenditures. Auditors did not review or test any internal or compensating controls that the University might have relating to USAS or the Texas Identification Number System (TINS) security or internal transaction approvals.

Auditors identified two employees with multiple security capabilities. Both employees had the security access to:

- Adjust payment instructions in TINS and approve paper vouchers.
- Process and release payments through USAS.
- Process and release payrolls without electronic oversight.

The University received a schedule of this finding during fieldwork.

Additionally, auditors ran a report to determine if any of the University's payment documents processed through USAS during the audit period because of the action of only one person. The report identified two USAS documents totaling \$524.60 that processed without oversight. The payments were reviewed during the audit and determined to be valid expenditures.

Recommendation/Requirement

The University should review the controls over expenditure processing and segregate each task to the maximum extent possible to ensure that no individual is able to process payments without oversight.

Auditors strongly recommend that the University implement the following:

1. Limit the access of users who can approve paper vouchers (by being on the signature card) to view-only access in TINS (PTINS02). An individual must not be able to change a vendor/employee profile or direct deposit information and approve a payment.
2. Limit the access at the time it is being set up (96A screen) by limiting user access to either enter/change vouchers or release/approve batches.



3. Elect to have the document tracking control edit on the Agency Profile (D02) set to either:
 - Prevent a user from releasing a batch that the same user entered or altered for the agency

-OR-

 - Warn the user when the same user attempts to release his or her own entries or changes. See [USAS Accounting and Payment Control \(FPP B.005\)](#).
4. Review the preventive and detective controls over expenditure processing discussed in [FPP B.005](#), such as the Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing.
5. Work with Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USAS.

University Response

SHSU is compliant with separation of duties as of April 2017.

The roles of employees were audited and those with vendor maintenance/set-up capabilities only have query/view access into invoice.

The SHSU Controllers Office has a process in place for separation of duties related to state expenditure processing.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for proper tracking in the University's internal system. All assets tested were in their intended location, properly tagged and properly recorded in the State Property Accounting system. Audit tests revealed no exceptions.

It should be noted that the University reported six stolen and 295 missing assets with an original purchase value of \$495,239.54, and a current net book value of \$0.00. Police reports for the stolen items were filed in accordance with University procedures. The missing assets were listed on the University's Disposed and Missing Inventory Report. The University stated the items were bought in 2008 or earlier, therefore meeting their useful life of five years and having no remaining net book value.



Target Analysis

Incorrect Direct Deposit Authorization Form

Auditors conducted a review of the University's procedures to comply with the federal mandate to properly identify and handle payments involving the international transfer of funds.

The [Office of Foreign Assets Control \(OFAC\)](#) requires that all direct deposit payments transmitted outside the United States be identified and monitored. To avoid potential federal penalties, each state agency must:

- Show due diligence in the processing of all direct deposit payments.
- When possible, ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside of the United States.

The University had set up three payees for direct deposit using an old direct deposit authorization form. The form did not include a question asking whether the payments would be sent out of the country.

International Automated Clearing House transactions (IATs) are payments destined for a financial institution outside of the United States. The Comptroller's office does not participate in IATs. If a payee informs an agency that a payment is destined for a financial institution outside of the United States, then the agency may not set up that payee for direct deposit.

Without current and properly completed forms on file, the University is unable to properly follow the direct deposit requirements.

The University indicated that using outdated direct deposit authorization forms was an oversight.

Recommendation/Requirement

The University must ensure that all payees who request payment by direct deposit provide the appropriate direct deposit authorization form, with the international payments question answered and the form signed.

University Response

Effective June 2017, SHSU implemented a supplier onboarding automated software tool, PaymentWorks, and no longer uses a paper direct deposit form. The PaymentWorks software tool allows suppliers to provide their tax ID number, address and banking information. The information is validated and captured in an electronic form.



The questions within the form address country of incorporation or organization, and also identify the country within the address information gathered. The form captures electronic signature and provides SHSU with a PDF of the W9 information completed. Foreign suppliers can use a link to obtain the W-8BEN-E form so it can be completed and uploaded into the PaymentWorks tool. All suppliers are approved by SHSU before being set up in the University finance database.

The PaymentWorks form will be submitted (March 2019) to the Comptroller for approval to ensure compliance with NACHA rules and the Comptroller's [TexPayment Resource \(FPP P.007\)](#).



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - The Uniform Statewide Payroll/Personnel System (USPS),
 - The Standardized Payroll/Personnel Report System (SPRS) or
 - The Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Sam Houston State University (University) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) during the period from Sept. 1, 2015, through Aug. 31, 2016, to determine compliance with applicable state laws.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The University receives appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The University should implement the recommendations listed in the Detailed Findings of this report. It is the University's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the University's documents comply in the future. The University must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.